

AUDIT MEMO

SUBJECT: Changes Related to Internal Auditing and Reporting—SB 1452	NO.: 07-03
REFERENCES: Government Code Sections 1236, 1237, 8546.2, 8548.9, 13886, 13886.5, 13887, 13887.5, 13888; Insurance Code Section 11873	DATE REISSUED: February 28, 2013

PURPOSE: This Audit Memo informs departments/agencies of changes to the Government and Insurance Codes related to internal auditing and reporting as a result of Chapter 452, Statutes of 2006 (SB 1452).

BACKGROUND: Passage of SB 1452 resulted in updates to internal auditing standards for state and local agencies and establishes a process enabling the Legislature to be informed when State Auditor recommendations are being ignored or not implemented by state agencies. Additionally, it creates a framework to protect internal auditors from intimidation while providing them with a process to have audit expectations reported if audit findings are suppressed by management. It also amended the Insurance Code to make the State Compensation Insurance Fund subject to the laws governing audits by the State Auditor.

GOVERNMENT AND INSURANCE CODE CHANGES: The following is a summary of the code changes resulting from SB 1452.

Amends Government Code section 1236 to state that all city, county, and district auditors conduct their work under the general and specified standards prescribed by the Institute of Internal Auditors or the Government Auditing Standards issued by the Comptroller General of the United States, as appropriate.

Amends Government Code section 1237 to require all state and local agencies with an aggregate spending of fifty million dollars or more annually to consider establishing an ongoing audit function.

Adds Government Code section 8546.2 to require all state and local government entities, including any special districts, to provide updates on the progress in implementing any recommendations made by the State Auditor, at intervals prescribed by the State Auditor.

Adds the Omnibus Audit Accountability Act to the Government Code as section 8548.9, and requires the State Auditor to report annually any state agency recommendation more than a year old that has not been implemented by the agency. It further requires any state agency with unimplemented recommendations more than a year old to provide a written report explaining why the audit recommendation has not been implemented, or provide notification that the recommendation will be implemented within 90 days, with the estimated date of implementation.

Adds Government Code section 13886 requiring any governing body that oversees a state agency that performs or reviews internal audits to establish an audit committee meeting the framework recommended by the American Institute of Certified Public Accountants.

Amends Government Code section 13886.5 and specifies that the Controller's and the Director of Finance's respective staff, and all state agencies that have their own internal auditors or that conduct internal audit activities shall conduct internal audit activity under the general and specified standards of internal auditing prescribed by the Institute of Internal Auditors or the Government Auditing Standards issued by the Comptroller General of the United States, as appropriate.

Amends Government Code section 13887 and 13887.5 to specify requirements to ensure internal auditor independence for any state agency that does not report to a governing body and for any state agency that is overseen by a governing body. It further establishes steps to be taken when the chief internal auditor believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, or that senior management has otherwise not taken appropriate action in response to a finding or recommendation; and provides protection to the chief internal auditor under the California Whistleblower Protection Act.

Amends Government Code section 13888 to protect under the California Whistleblower Protection Act, and to provide provision for, any internal auditor employed by a state agency to report to the State Auditor if they are under pressure to modify or limit findings or recommendations, or if appropriate action is not being taken in response to an audit finding or recommendation.

Amends Insurance Code section 11873, making the State Compensation Insurance Fund subject to the provisions of law governing audits by the State Auditor.

This Audit Memo provides only a summary of the key provisions of SB 1452. Agencies should review the entire text of SB 1452 to become familiar with all provisions.

Please distribute this Audit Memo to departmental Management, Internal Auditors, and others as appropriate. If you have any questions, please contact Richard R. Sierra, Assistant Chief, at (916) 322-2985, Ext. 3103.

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